

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | | | | | |
|--|--|--------------|--|--|--|--------|--|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | | | Local Government Name | | County | |
| Audit Date | | Opinion Date | | Date Accountant Report Submitted to State: | | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | |
| Reports on individual federal financial assistance programs (program audits). | | | |
| Single Audit Reports (ASLGU). | | | |

| | | | | |
|--|--|------|-------|----------|
| Certified Public Accountant (Firm Name) | | | | |
| Street Address | | City | State | ZIP Code |
| Accountant Signature <i>Siegfried Crandall P.C.</i> | | | Date | |

South Kalamazoo County Fire Authority
Kalamazoo County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended March 31, 2005

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INDEPENDENT AUDITORS' REPORT

**Members of the Board
South Kalamazoo County Fire Authority**

We have audited the accompanying financial statements of the governmental activities and the major fund of the South Kalamazoo County Fire Authority as of and for the year ended March 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Kalamazoo County Fire Authority as of March 31, 2005, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 8, the South Kalamazoo County Fire Authority has implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of April 1, 2004.

The budgetary comparison information, on page 10, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The South Kalamazoo County Fire Authority, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

January 9, 2006

BASIC FINANCIAL STATEMENTS

South Kalamazoo County Fire Authority

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

March 31, 2005

| | <u>General Fund</u> | <u>Adjustments</u> | <u>Statement of net assets</u> |
|--|-------------------------|--------------------|------------------------------------|
| ASSETS | | | |
| Cash | \$ 168,621 | \$ - | \$ 168,621 |
| Capital assets, net | <u>-</u> | <u>416,150</u> | <u>416,150</u> |
| Total assets | <u>\$ 168,621</u> | <u>\$ 416,150</u> | <u>584,771</u> |
| LIABILITIES | | | |
| Payables | \$ 16,201 | <u>\$ -</u> | <u>16,201</u> |
| FUND EQUITY | | | |
| Fund balance - unreserved, undesignated | <u>152,420</u> | <u>(152,420)</u> | <u>-</u> |
| Total liabilities and fund equity | <u>\$ 168,621</u> | | |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | | 416,150 | 416,150 |
| Unrestricted | | <u>152,420</u> | <u>152,420</u> |
| Total net assets | | <u>\$ 568,570</u> | <u>\$ 568,570</u> |
| Total fund balance - modified-accrual basis | | | \$ 152,420 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets are different because: | | | |
| Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds. | | | <u>416,150</u> |
| Total net assets - full-accrual basis | | | <u>\$ 568,570</u> |

See notes to financial statements

South Kalamazoo County Fire Authority**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES***Year ended March 31, 2005*

| | <u>General Fund</u> | <u>Adjustments</u> | <u>Statement of activities</u> |
|---|-------------------------|--------------------|------------------------------------|
| REVENUES | | | |
| Contributions from local units | \$ 322,789 | \$ - | \$ 322,789 |
| Interest | 876 | - | 876 |
| Other | <u>6,231</u> | <u>-</u> | <u>6,231</u> |
| Total revenues | <u>329,896</u> | <u>-</u> | <u>329,896</u> |
| EXPENDITURES/EXPENSES | | | |
| Public safety | 269,785 | 46,574 | 316,359 |
| Capital outlay | <u>2,199</u> | <u>(2,199)</u> | <u>-</u> |
| Total expenditures/expenses | <u>271,984</u> | <u>44,375</u> | <u>316,359</u> |
| NET CHANGE IN FUND BALANCES/NET ASSETS | 57,912 | (44,375) | 13,537 |
| FUND BALANCES/NET ASSETS - BEGINNING | <u>94,508</u> | <u>460,525</u> | <u>555,033</u> |
| FUND BALANCES/NET ASSETS - ENDING | <u>\$ 152,420</u> | <u>\$ 416,150</u> | <u>\$ 568,570</u> |

Net change in fund balances - modified-accrual basis **\$ 57,912**

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation (\$56,445) exceeded capital outlays (\$12,070).

(44,375)

Change in net assets - full-accrual basis **\$ 13,537**

See notes to financial statements

South Kalamazoo County Fire Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Kalamazoo County Fire Authority (the Authority) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

The Authority was established June 26, 1999, to jointly provide fire protection services within the member municipalities in Southern Kalamazoo County, Michigan. The Authority is comprised of the Villages of Schoolcraft and Vicksburg, and the Townships of Brady, Prairie Ronde, Schoolcraft, and Wakeshma. Costs of operations and capital expenditures are supported by contributions from the participating municipalities.

b) Basis of accounting:

The statement of net assets and the statement of activities are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by provider have been met.

The governmental fund financial statements are reported using current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available if collected in the current period or within 60 days of the end of the current fiscal year end. Expenditures are generally recognized when the related liability is incurred.

c) Assets and liabilities:

i) Bank deposits and investments - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

ii) Capital assets - Capital assets, which include land, buildings, equipment, and vehicles, are defined by the Authority as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|-----------|---------------|
| Equipment | 10 - 20 years |
| Vehicles | 5 - 15 years |

South Kalamazoo County Fire Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. The budget document presents information by function and line-item. The legal level of budgetary control adopted by the governing body is the line-item level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the significant budget variance:

| <u>Fund</u> | <u>Function/Activity</u> | <u>Line-item</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------|---------------------------------|--------------------|---------------|---------------|-----------------|
| General | Public safety - fire protection | Operating supplies | \$ 30,490 | \$ 35,868 | \$ (5,378) |
| | | Insurance | 38,500 | 41,606 | (3,106) |

NOTE 3 - CASH:

Deposits with financial institutions:

State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At March 31, 2005, the Authority's bank balances of \$143,833 were insured, and were, therefore, not exposed to custodial credit risk.

NOTE 4 - OPERATING LEASES:

The Authority leases three stations from the Village of Schoolcraft, Wakeshma Township, and the Village of Vicksburg under agreements that have been classified as operating leases. The terms of the lease agreements between the Authority and the participating local units of government are in effect through March 31, 2005. Lease expense for the period ending March 31, 2005, was \$15,000.

South Kalamazoo County Fire Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the Authority for the current year was as follows:

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated - land | \$ 5,000 | \$ - | \$ - | \$ 5,000 |
| Capital assets being depreciated: | | | | |
| Equipment | 204,317 | 12,070 | - | 216,387 |
| Vehicles | 840,536 | - | 86,136 | 754,400 |
| Subtotal | <u>1,044,853</u> | <u>12,070</u> | <u>86,136</u> | <u>970,787</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | 84,642 | 18,655 | - | 103,297 |
| Vehicles | 504,686 | 37,790 | 86,136 | 456,340 |
| Subtotal | <u>589,328</u> | <u>56,445</u> | <u>86,136</u> | <u>559,637</u> |
| Total capital assets being depreciated, net | <u>455,525</u> | <u>(44,375)</u> | <u>-</u> | <u>411,150</u> |
| Governmental activities capital assets, net | <u>\$ 460,525</u> | <u>\$ (44,375)</u> | <u>\$ -</u> | <u>\$ 416,150</u> |

NOTE 6 - PAYABLES:

Payables as of year end for the Authority are as follows:

| <u>Fund</u> | <u>Accounts</u> | <u>Payroll</u> | <u>Total</u> |
|-------------|-----------------|-----------------|------------------|
| General | <u>\$ 9,278</u> | <u>\$ 6,923</u> | <u>\$ 16,201</u> |

NOTE 7 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss to general liability, property and casualty, and workers' compensation, with such risks being managed through the purchase of commercial insurance.

South Kalamazoo County Fire Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective April 1, 2004, the Authority implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

| | |
|---|-------------------|
| Net assets as previously reported | \$ 94,508 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | <u>460,525</u> |
| Net assets, as restated | <u>\$ 555,033</u> |

REQUIRED SUPPLEMENTARY INFORMATION

South Kalamazoo County Fire Authority
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2005

| | <u>Original budget</u> | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|------------------------------------|----------------------------|---------------------------|-------------------|---|
| REVENUES | | | | |
| Contributions from local units | \$ 323,050 | \$ 323,050 | \$ 322,789 | \$ (261) |
| Interest | 1,500 | 1,500 | 876 | (624) |
| Other: | | | | |
| Sales of capital assets | - | - | 4,000 | 4,000 |
| Donations | 300 | 300 | 2,231 | 1,931 |
| Total revenues | <u>324,850</u> | <u>324,850</u> | <u>329,896</u> | <u>5,046</u> |
| EXPENDITURES | | | | |
| Public safety: | | | | |
| Wages and payroll taxes | 113,000 | 113,000 | 93,642 | 19,358 |
| Office supplies | 2,000 | 2,000 | 513 | 1,487 |
| Operating supplies | 18,550 | 30,490 | 35,868 | (5,378) |
| Professional services | 3,850 | 4,085 | 2,844 | 1,241 |
| Telephone and communications | 20,550 | 22,285 | 21,173 | 1,112 |
| Repairs and maintenance | 35,250 | 40,980 | 36,387 | 4,593 |
| Insurance | 38,500 | 38,500 | 41,606 | (3,106) |
| Utilities | 14,250 | 18,020 | 15,970 | 2,050 |
| Lease | 15,000 | 15,000 | 15,000 | - |
| Education and training | 9,000 | 9,000 | 6,732 | 2,268 |
| Miscellaneous | 350 | 350 | 50 | 300 |
| Total public safety | <u>270,300</u> | <u>293,710</u> | <u>269,785</u> | <u>23,925</u> |
| Capital outlay | <u>54,550</u> | <u>31,140</u> | <u>2,199</u> | <u>28,941</u> |
| Total expenditures | <u>324,850</u> | <u>324,850</u> | <u>271,984</u> | <u>52,866</u> |
| NET CHANGE IN FUND BALANCES | - | - | 57,912 | 57,912 |
| FUND BALANCES - BEGINNING | <u>94,508</u> | <u>94,508</u> | <u>94,508</u> | - |
| FUND BALANCES - ENDING | <u>\$ 94,508</u> | <u>\$ 94,508</u> | <u>\$ 152,420</u> | <u>\$ 57,912</u> |

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**Members of the Board
South Kalamazoo County Fire Authority**

In planning and performing our audit of the financial statements of South Kalamazoo County Fire Authority for the year ended March 31, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 9, 2006, on the financial statements of South Kalamazoo County Fire Authority.

We will be pleased to discuss these comments and recommendations in further detail at your convenience.

Siegfried Crandall P.C.

January 9, 2006

South Kalamazoo County Fire Authority
COMMENTS AND RECOMMENDATIONS

Reporting and record retention

In the course of our audit procedures we noted that certain required reports were not filed in a timely manner. Also, payroll worksheets and incident reports that had been removed from the Authority's offices could not readily be located.

We recommend that the Authority establish procedures to insure that all reports are filed when due. Management should prepare an annual schedule of required reports, identifying the individuals responsible for preparation and review, with documentation of the actual dates the reports are filed.

All records of the Authority should be filed in specific and secure locations, and retained in accordance with applicable requirements. Record retention schedules are available to assist the Authority in establishing adequate retention policies.

Various legal requirements, including those contained in the Health Insurance Portability and Accountability Act (HIPPA), and in the Michigan Social Security Number Privacy Act need to be communicated to the employees of the Authority, so that access to records containing personal information, medical information, or social security numbers is properly restricted.

Use of specialized computer software

The Authority has purchased software developed specifically for the needs of fire departments. Presently, the software is used in a limited manner for certain reporting functions.

The Authority should establish procedures to begin using more of the available features of this application, including the accumulation of detailed information for payroll, meeting and training attendance, and incident report analysis.

Adequate training will be needed to insure that the Authority achieves increased efficiencies and effectiveness in reporting, and to increase the likelihood that data will be properly entered and protected.